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FOR ACTION

RESERVE FOR PROCUREMENT SERVICES

SUMMARY

The present report summarizes UNICEF procurement services activity from 1986 to 1992. The Executive Director recommends that the Executive Board approve the reserve for procurement services at $2 million. The reserve will be funded solely from retention of surplus balances from the activity. Amounts in excess of the approved level are credited to general resources.

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BACKGROUND

1. Regulation 5.1 of the UNICEF Financial Regulations and Rules provides that special accounts may be established by the Executive Board or by the Executive Director for special purposes consistent with the policies, aims and activities of UNICEF.

2. Procurement service (previously referred to as reimbursable procurement) is a form of assistance offered by UNICEF to cooperating Governments, United Nations agencies and non-governmental organizations for the procurement of supplies and equipment on a special account basis.

3. This activity is meant to be self-sustaining, and contributions from donors intended for the programmes assisted by UNICEF are not to be used to defray the expenses incurred from this undertaking. A handling fee, computed as a percentage of the cost of the supplies, is charged against each procurement request. The rates used are determined by the nature of the items requested. To ensure the self-sustaining nature of the activity, the rates are reviewed periodically to ascertain their adequacy.

4. Since 1985, it has been the practice, when possible, to retain from the surplus achieved on the account amounts required to maintain a reserve considered necessary to absorb possible future shortfalls. The level of the reserve was initially set at $300,000 in 1985. It was increased to $700,000 in 1986 and to $1 million in 1988. These increases were financed solely from surplus balances on the account, and all amounts in excess thereof were credited to general resources.

5. In 1989 and 1990, the relevant staff and other costs exceeded the charges imposed by UNICEF on those availing of the service to meet such costs. These shortfalls, in the amounts of $168,700 for 1989 and $646,400 for 1990, were covered by the $1 million balance in the reserve at the beginning of 1989. However, this reduced the balance of the reserve to $184,900 as of the end of 1990. In 1991, another shortfall was experienced in the amount of $655,700. In view of the low balance in the reserve, and as an interim measure, the Executive Director authorized the use of the interest income in the amount of $1,325,700 to cover that year's shortfall.

6. During the final audit of the UNICEF accounts for the 1990-1991 biennium, the United Nations Board of Auditors recommended that Executive Board approval be obtained for this reserve.

7. In case of a decline in the level of activity on procurement services which has not been anticipated, the related handling charges would similarly be reduced. However, there are staff costs that cannot be automatically and immediately eliminated. In this situation, the reserve will be used to cover the costs until the necessary staffing adjustments are made.

8. The annex shows the statistics on the level of activity for procurement services from 1986 to 1992, the amounts recovered to cover direct costs and the amount of expenditures from 1986 to 1992. For the same period, the annex also shows the amounts of surpluses or deficits on the account, the amounts retained

in the reserve and those transferred to general resources. Lastly, the annex presents the year-end balances in the reserve for the seven-year period.

RECOMMENDATION

9. The Executive Director recommends that the Executive Board approve the level of the reserve for procurement services at $2 million.

Annex

COMPARATIVE STATISTICS ON PROCUREMENT SERVICES

1986 – 1992

(In thousands of United States dollars)

Year	Volume of transactions	Amounts recovered	Staff and other costs	Surplus (deficit)	To reserve	To general resources	Balance of reserve
1986	46,324	1,045	627	418	400	18	700
1987	48,433	1,724	1,295	429	–	429	700
1988	49,154	2,093	1,681	411	300	111	1,000
1989	44,408	1,873	2,042	(168)	(168)	–	831
1990	49,271	2,078	2,725	(646)	(646)	–	184
1991	48,881	1,961	2,617	(655)	(655) a/	–	854 a/
1992	51,654	3,899	2,770	1,128	1,128	–	1,983

a/ The Executive Director authorized the use of the 1991 interest income in the amount of $1,325,700 to cover the 1990–1991 shortfalls. At its 1991 session, the Executive Board decided that in the future such interest income should be credited to general resources.